

HTC HYDROGEN TECHNOLOGIES CORP.

ANNUAL REPORT 2004

***"World leadership position in CO₂ capture
and hydrogen production technologies."***

scientific integrity

carbon clear

commercialization

patent rights

catalysts

pure energy

kinetics boss

CO₂ capture

licensing

royalties

shareholder value



TO OUR **SHAREHOLDERS**

HTC is an energy technology company, whose mandate is to deliver “**Carbon Clear Solutions**” to address the pending challenges of energy security and the environmental impact of greenhouse gas emissions.

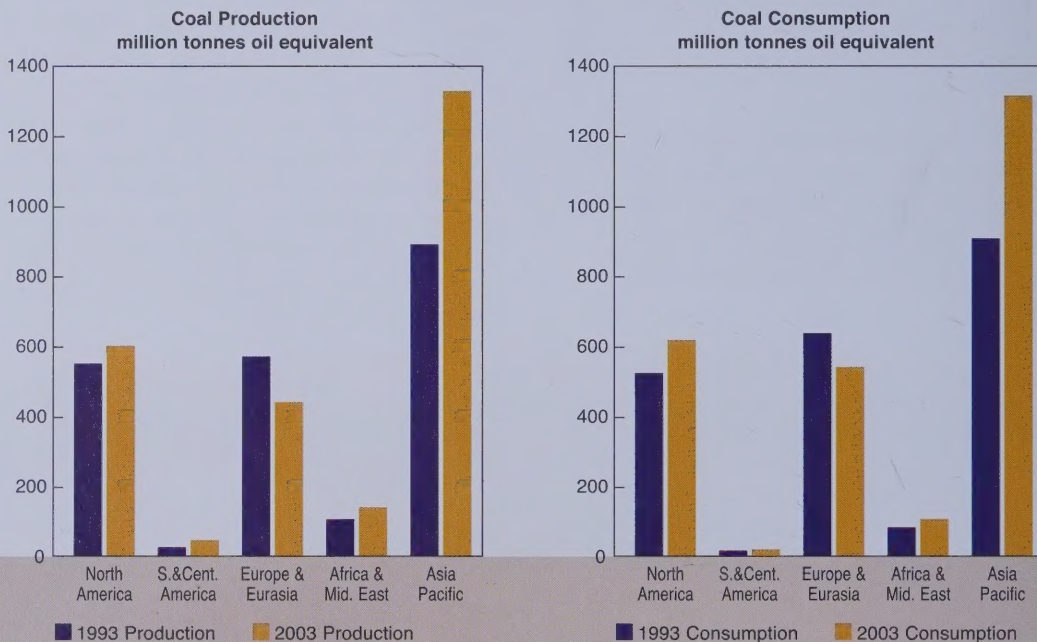
HTC's suite of technologies has been aggregated and developed through the Collaborative Research Agreement with the University of Regina — home of the International Test Centre (ITC) for CO₂ capture.

HTC's collaboration with the University of Regina brings over 10 years of research and development, plant design, test and evaluation to the market. HTC provides visibility to companies seeking to address their current or potential carbon liability issues. HTC provides solutions from both a technical and economic perspective for the implementation of CO₂ capture on legacy coal/natural gas power generation plants, modeling of new power generation facilities incorporating CO₂ capture/storage, as well as multi feed stock hydrogen production.



HTC provides a comprehensive suite of CO₂ capture and hydrogen production energy technologies.

Size of the Industry - CO₂ Capture



The strong gains of recent years mean that global coal consumption has risen by an average 1.7% per annum over the last 10 years. The fastest growth has been in Asia Pacific (3.7% p.a.). 2003 was the first year on record that North America consumed more coal than it produced.

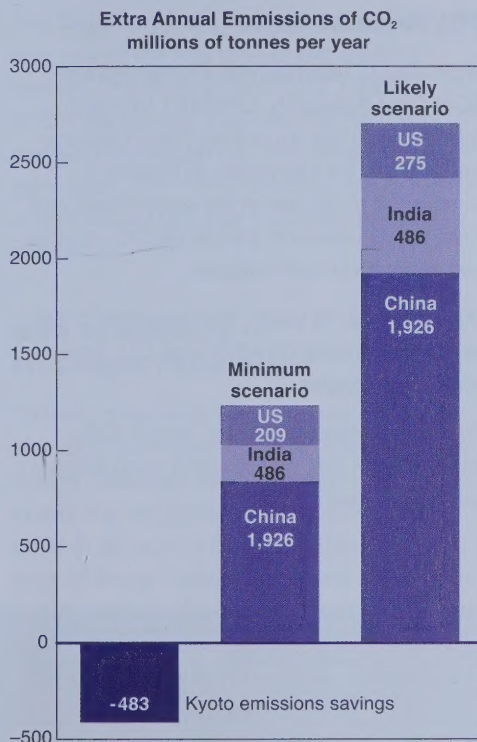


Coal has become China's largest energy source, accounting for 70 percent of total energy consumption. Energy security is the number one factor now driving the preservation of coal as a major energy source. The US with its 250 year supply of coal, and Australia with its 550 year supply of coal, ensures such countries become more energy self dependent.

However, burning coal for industry produces about 9 billion tonnes of carbon dioxide each year, which is released to the atmosphere, about 70% of this being from coal fired power generation. Other estimates put carbon dioxide emissions from power generation at one third of the world total of 24 billion tonnes of CO₂ emissions.

There are 850 planned new coal-fired plants in China, India and the United States. This will pump up to five times as much carbon dioxide into the atmosphere as the Kyoto Protocol aims to reduce. By 2012, these plants are projected to emit an extra 2.7 billion tons of carbon dioxide. In contrast, Kyoto countries by 2012 are mandated to cut their CO₂ emissions by 483 million tons.

China, India and the United States are set to add up to 327,000 megawatts by 2012 — three quarters of the new capacity in the global pipeline and roughly equal to the output of current US coal-fired generating fleet. The new coal plants from the three nations would burn about 900 million extra tons of coal each year. That in turn would emit in the neighborhood of 2.5 billion tons of CO₂ into the atmosphere. 58 other nations have 340 new coal-fired plants in various stages of development.



New "clean coal" technologies are required to address this problem so that the world's enormous resources of coal can be utilized for future generations without contributing to global warming. In the next ten years, an estimated 40 million kilowatts of electricity generation capacity needs to install solutions for emissions capture.

Energy security is the number one factor now driving the preservation of coal as a major energy source.

CO₂ Product Suite

According to International Energy Agency (IEA) Coal Research, CANMET Western Research Center as well as Fluor Corporation of USA, the University of Regina is considered to be one of the world-class and most active research groups on CO₂ capture and separation technologies.

Over the past 10 years, this research group has been working on advanced CO₂ separation technologies.

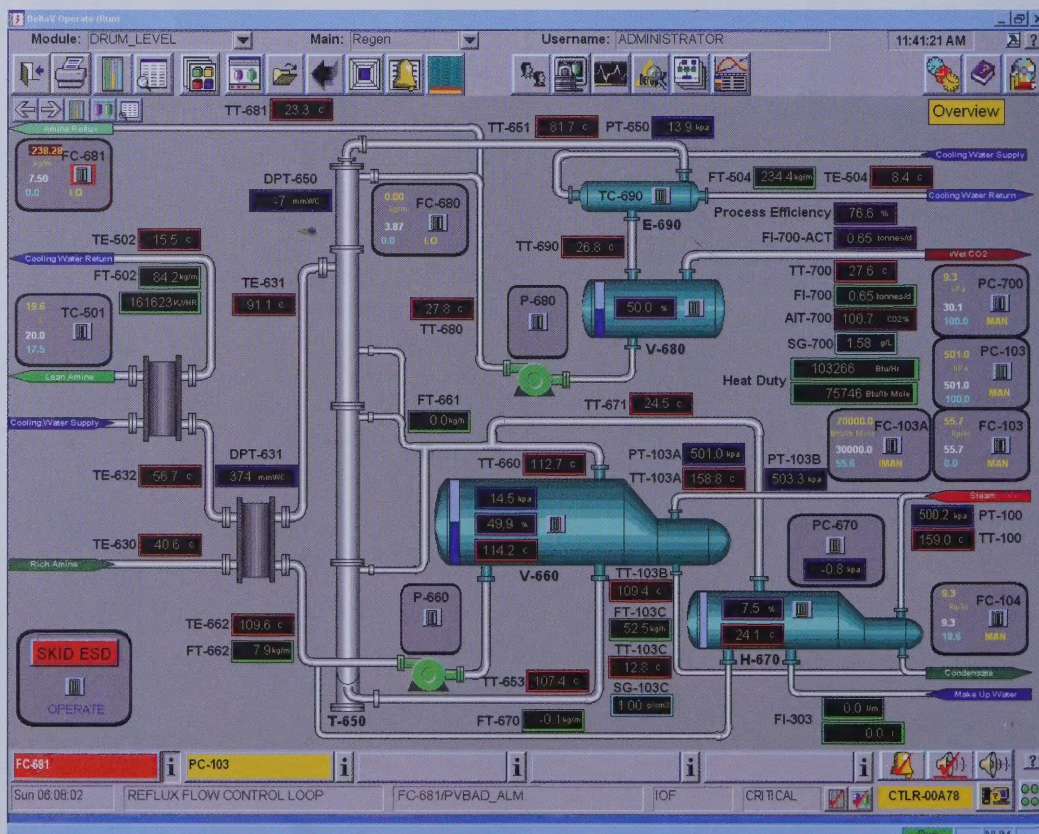
The main target application area is CO₂ removal from flue gas streams such as coal and natural gas.

Cost Effective Capture of CO₂

Process efficiencies have been advanced through the development of HTC's technologies where process integration, precise modelling and designer solvents with enhanced stripping methods, has brought forward the viability of capture technologies.

The key benefits of HTC's systems are:

- Reduction in process energy requirements
- Lowering of stripping temperatures
- Reduction of solvent degradation
- Increased absorption efficiencies
- Improve efficiency in random and structured column packing
- Reduction of system corrosiveness



CO₂ and H₂ Modeling/Design and Simulation Processes "Kinetics Boss"

HTC's patented modeling/design/simulation processes and staging platforms for solvent, reactor and catalyst design, have set an industry benchmark for cost effective deployment of H₂ production and CO₂ capture. The ability to cost effectively configure solvents, catalysts and reactor designs to suit various feed stocks and ensure maximum efficiencies are achieved on deployment of the production systems.

Managed Service Offerings

HTC is able to provide organizations seeking an outsourced model for CO₂ capture. This includes the provisioning of a remote monitoring and control system from a central command center. On-site technical services and systems can also be provided.

Demonstration Facilities

The International Test Centre (ITC), operates and maintains a range of demonstration and test facilities for CO₂ capture for coal and natural gas fired generation. Its prime commercial plant at Boundary Dam is utilized for demonstration, and can be monitored remotely.

The Boundary Dam Demonstration Facility was one of the first sites in the world to capture CO₂ from Lignite Coal. Located in Saskatchewan, Canada, the plant was installed to capture CO₂ from coal fired generation. The demonstration plants act as a commercial test bed in scaling up capture solutions.

Size of Industry — Hydrogen Production

To date, most hydrogen markets have been stalled or non-existent due to the prohibitive cost or inefficiencies in hydrogen production, and/or the technological obstacles encountered in storage or transportation. However, most of these obstacles are now being overcome, and with the recent increase in oil prices and world energy demand, the requirement for new alternative energy solutions becomes more pressing.

Hydrogen has many diverse industrial applications that have immediate markets. Some of these markets include:

- Use in chemical processing
- Specialty metal production
- Petroleum refining, and heavy oil/tar sands processes
- Electronics, power and food industries

***HTC has the energy technologies and
human resource talent to provide the necessary
"Carbon Clear Solutions" to the world.***

Current consumers of hydrogen for industrial applications typically acquire their hydrogen by having it delivered to their facilities by industrial gas suppliers. On-site, safe and cost-efficient hydrogen generation would provide numerous advantages, including reduced capital costs, reduced environmental footprint and ease of operation.

The main contributors to urban pollution or smog are volatile hydrocarbons, particulates from combustion and nitrogen oxides from vehicle emissions. It is anticipated that alternative energy hydrogen fuel technologies would revolutionize the automotive industry through the promise of a reduction or elimination of vehicle emissions. The international automotive industry is committed to the hydrogen economy and has accelerated the introduction and mass production dates of fuel cell vehicles. Hybrid vehicles are today being successfully introduced and sold, and will become the electric drive technology platform for fuel cell vehicles. Currently, there is no economically viable mobile energy source that is an alternative to hydrocarbons.

The commercialization of efficient hydrogen production processes would also revolutionize related industries involving fuel cell development.

The world's largest oil and gas companies have developed or are now developing hydrogen supply strategies. Supplying mobile fuel to vehicles is the core business service that supports the convenience store, credit card, and real estate business models at many fuel stations today.

Commercialization

On May 16, 2005, HTC formally launched its commercialization strategy. The "**HTC Purenergy**" brand will identify the HTC suite of technologies that will be commercialized through fees from licensing agreements, recurring royalty revenues and managed services income streams.

Objectives for 2005

Global warming, energy security, increases in fuel prices, and increased demand for energy solutions from new economy countries such as China and India have accelerated the need for HTC to bring its "**Purenergy solutions**" to market. To meet this demand over the next year HTC plans to:

- Commercialize the "**HTC Purenergy**" suite of technologies.
- Develop strategic industry partners for CO₂ capture and hydrogen production.
- Design and build a multi feed stock hydrogen production demonstration plant for commercial staging.
- Patent and protect existing and new proprietary IP.
- Continue research into new and innovative CO₂ capture/destruction/utilization technologies.
- Develop other Bio-fuel "boutique" technologies in areas such as cellulose and non-purified ethanol.

The commercialization of efficient hydrogen production processes would also revolutionize related industries involving fuel cell development.



MANAGEMENT'S DISCUSSION & ANALYSIS

Results of Operations

HTC Hydrogen Technologies Corp. (the "Corporation") is an early stage development company that did not yet have a commercial revenue source during 2004 from its CO₂ capture and hydrogen production technologies. As of December 23, 2004, the Corporation completed the purchase of HTC Hydrogen Thermochem Corp. ("Thermochem"). Revenue and expenses were only included for the period of December 23, 2004

to December 31, 2004. The balance sheet shows the consolidated Corporation entries as at December 31, 2004.

Revenues

For the fiscal year ended December 31, 2004 the Corporation had a net income of \$49,546 from operations as compared to a net loss of \$92,424 for the prior year. The financial improvement was the result of consulting fees paid by Thermochem prior to acquisition.

Interest Income

The Corporation recorded interest and other income in the amount of \$6,807 compared to \$7,373 in the prior year related to interest earned on the mortgage receivable.

Operating Expenses

General and administrative expenses were \$217,539 as compared to \$171,879 in the same twelve-month period in the previous year.

General and administrative expenses consist primarily of consulting, legal, accounting and travel expenses. Included in general and administrative expenses were acquisition costs.

Total Assets

Total assets were \$10,176,128 as of December 31, 2004, as compared to \$125,364 December 31, 2003. The increase in total assets is due primarily do to the acquisition of Thermochem (See notes 3 and 4 for a complete explanation of the purchase accounting).

Long-term and Off-balance Sheet Liabilities

As part of the purchase, the Corporation assumed the liabilities and commitments of Thermochem. This included a commitment to pay the University of Regina \$160,000 per year and an additional 3% of capital raised,



up to a maximum of \$300,000. To date, Thermochem has paid \$16,380 of the 3% additional fee (see note 15).

Current Liabilities

Current liabilities were \$67,730 as of December 31, 2004, as compared to \$14,854 as of December 31, 2003. This increase in current liabilities is the result of the acquisition costs occurring at the end of the year.

Shareholders' Equity

As at December 31, 2004, shareholders' equity was \$10,108,398, up from \$110,510, as at December 31, 2003. This is the result of the Thermochem purchase.

Cash Flows

Cash flows from operating activities was \$98,681 for the twelve-month period ended December 31, 2004, an improvement as compared to a negative (\$69,139) for the twelve-month period ended December 31, 2003. The cash increase in 2004 was achieved primarily through management fees earned from Thermochem prior to the acquisition.

Liquidity and Capitalization

On December 23, 2004, the Corporation completed the acquisition of Thermochem. This purchase was funded through the issuance of 2,313,568 common shares of the Corporation plus acquisition costs of \$59,021.

Subsequent to year end, the Corporation issued an additional 910,250 shares for net proceeds of \$3,641,000. The Corporation will continue to raise capital to forward its plans

of continued research and development, demonstration plants, acquisition of complementary technologies, and commercialization of these developed and aggregated technologies (see note 1).

Transactions with Related Parties

The Directors and Senior Officers of the Corporation provided consulting services during the period at a cost of \$42,572 (2003 – \$20,108). In addition, one of the Corporation's directors is a partner in an organization, which provided professional services to the Corporation. During the current period these services amounted to \$4,415 (2003 – \$654). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties (see note 12).

Change in Accounting Policies

The Corporation did not implement any changes to accounting policies during the fiscal year ended December 31, 2004.

Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, mortgage receivable, and accounts payable and accrued liabilities. The fair values of these instruments approximate their carrying value due to their short-term nature and the terms associated with the financial instruments.

Competition

CO₂ Capture — There are a number of companies vying to develop specific CO₂ capture solutions for coal, natural gas and industrial flu gas stacks. The Corporation

Results by Quarter

| | 2004 | | | | 2003 | | | |
|----------------------------|-------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| | 1 st Qtr Mar 31 \$ | 2 nd Qtr June 30 \$ | 3 rd Qtr Sept 30 \$ | 4 th Qtr Dec 31 \$ | 1 st Qtr Mar 31 \$ | 2 nd Qtr June 30 \$ | 3 rd Qtr Sept 30 \$ | 4 th Qtr Dec 31 \$ |
| Unaudited | | | | | | | | |
| Revenue | 84,112 | 74,767 | 63,552 | 46,729 | 13,524 | 9,016 | Nil | 79,439 |
| Net Income (Loss) | 8,723 | 19,384 | (14,243) | 35,682 | (23,103) | (15,644) | (2,206) | (51,471) |
| Total Assets | 132,073 | 138,617 | 125,165 | 10,176,128 | 284,527 | 261,039 | 258,833 | 125,364 |
| Long-term Liabilities | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Shareholder Equity | 119,233 | 138,617 | 124,374 | 10,108,398 | 175,332 | 159,687 | 157,481 | 110,510 |
| Cash Flow from Operations | 7,884 | 10,644 | (11,843) | 98,681 | 44,271 | (15,645) | (218) | (7,838) |
| Increase(decrease) in cash | 1,095 | 12,054 | (10,134) | 39,611 | (69,072) | (30,348) | 1,550 | (5,420) |

believes that its CO₂ capture suite of technologies has many competitive advantages that will improve overall CO₂ capture efficiencies and facilitate their commercialization.

Hydrogen Production — There are a number of competing technologies for the on-site manufacturing of hydrogen, none of which has been adopted as the “defacto leader” in on-site reformation. The Corporation believes their hydrogen production technologies have a competitive advantage due to simplicity of design, advanced and improved catalysts, process CO₂ use/capture, and scalability of the technology.

Risks and Uncertainties

Risks and uncertainty relate to management’s ability to seek out and perform timely due diligence to aggregate targeted energy technologies. Full commercialization is dependent on CO₂ emitters being incentivized or legislated to adapt CO₂ capture technology, and the adoption rate of the new hydrogen economy.

Subsequent Event

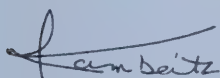
Subsequent to year end, the Corporation has issued an additional 910,250 shares for net proceeds of \$3,641,000. The Corporation will continue to generate capital to forward its plans of new research and development, demonstration plants, and commercialization of existing technologies (see note 1).

Forward Looking Statements

The information and opinions expressed herein involve known and unknown risks and uncertainties that may cause the Corporation’s actual results or outcomes to be materially different from those anticipated and discussed herein.

In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in these financial statements and exhibits, and in those other filings with the Corporations Canadian regulatory authorities as found in ‘www.SEDAR.com’. Although we

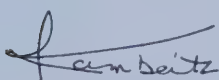
believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. We are under no duty to update any of our forward-looking statements after the date of these audited financial statements, other than as required and governed by law.



Lionel Kambeitz
Chairman, Chief Executive Officer
and Chief Financial Officer

HTC Hydrogen Technologies Corp. Certificate of Disclosure

I have reviewed the filing of the Corporation's annual financial statements, Management's Discussion and Analysis, and attachments thereto for the twelve-month period ended December 31, 2004, contained in this annual report. Based on my knowledge, this filing does not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, with respect to the period covered by this filing. The statements together with the other financial information included in this filing fairly present in all material respects the financial condition, results of operation and cash flows of HTC Hydrogen Technologies Corp. as of April 14, 2005, as presented in this annual report.



Lionel Kambeitz
Chairman, Chief Executive Officer
and Chief Financial Officer

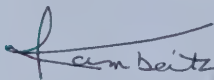
Managements Responsibility for Financial Statements

The accompanying consolidated financial statements included in the annual report of HTC Hydrogen Technologies Corp. for the year ended December 31, 2004, are the responsibility of management, and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principals in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls, including written policies and procedures. These measures provide reasonable assurance that transactions are authorized, assets are properly safeguarded and reliable financial records are maintained.

The Board of Directors fulfills its responsibility with regard to the financial statements, be meeting periodically with management, the Audit Committee as well as with the external auditors. The Board of Directors is responsible for recommending to the shareholders the engagement or re-appointment of the external auditor. The auditors have free access to the board to discuss their audit work and the quality of financial reporting.

The consolidated financial statements have been audited by the independent firm of Virtus Group LLP as appointed by the Board of Directors.



Lionel Kambeitz
Chairman, Chief Executive Officer
and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of HTC Hydrogen Technologies Corp. as at December 31, 2004 and the statements of operations and retained deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year financial statements (Westrange Corp.) were audited by another firm of chartered accountants that issued an unqualified report dated April 14, 2004.

Virtus Group LLP

Chartered Accountants
Regina, Canada
April 21, 2005

HTC HYDROGEN TECHNOLOGIES CORP. (formerly Westrange Corp.)

Consolidated Balance Sheets

(in Canadian dollars)

| As at December 31, | 2004 | 2003 |
|---|-------------|-------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets: | | |
| Cash | 58,178 | 18,567 |
| Short term investments (note 3) | 234,578 | — |
| Accounts receivable | 36,248 | 3,042 |
| Refundable scientific research & development (note 4) | 340,759 | — |
| Prepaid expense | 162,762 | — |
| | 832,525 | 21,609 |
| Mortgage receivable (note 5) | 78,397 | 88,560 |
| Property, plant and equipment (note 6) | 46,107 | 15,195 |
| Organizational costs (note 7) | 4,000 | — |
| Goodwill and intangibles (note 4) | 9,215,099 | — |
| | 10,176,128 | 125,364 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 67,730 | 14,854 |
| Shareholders' equity: | | |
| Share capital (note 8) | 11,131,388 | 1,183,046 |
| Contributed surplus (note 9) | 4,500 | 4,500 |
| Deficit | (1,027,490) | (1,077,036) |
| | 10,108,398 | 110,510 |
| Future operations (note 1) | | |
| Commitments (note 15) | 10,176,128 | 125,364 |

See accompanying notes to consolidated financial statements

HTC HYDROGEN TECHNOLOGIES CORP. (formerly Westrange Corp.)

Consolidated Statements of Operations and Deficit

(in Canadian dollars)

| For the year ended December 31, | 2004 | 2003 |
|--|-------------|-------------|
| | \$ | \$ |
| Revenue: | | |
| Lease | — | 22,540 |
| Consulting Services (note 12) | 269,160 | 79,439 |
| | 269,160 | 101,979 |
| Expenses: | | |
| General and administration | 217,539 | 171,879 |
| Amortization | 8,882 | 6,383 |
| Bad debts | — | 22,540 |
| Interest on long-term debt | — | 974 |
| | 226,421 | 201,776 |
| Income (Loss) from operations | 42,739 | (99,797) |
| Other income (loss): | | |
| Interest and other income | 6,807 | 7,373 |
| Net income (loss) from continuing operations | 49,546 | (92,424) |
| Provision for income taxes (note 11) | — | — |
| Net income (loss) | 49,546 | (92,424) |
| Deficit – Beginning of year | (1,077,036) | (984,612) |
| Deficit – End of year | (1,027,490) | (1,077,036) |

See accompanying notes to consolidated financial statements

HTC HYDROGEN TECHNOLOGIES CORP. (formerly Westrange Corp.)

Consolidated Statements of Cash Flows

(in Canadian dollars)

| For the year ended December 31, | 2004 | 2003 |
|--|----------|-----------|
| | \$ | \$ |
| Cash flows from operating activities: | | |
| Net income (loss) | 49,546 | (92,424) |
| Items not affecting cash: | | |
| Amortization | 8,882 | 6,383 |
| Stock based compensation (note 11) | — | 4,500 |
| Change in working capital other than cash | 40,253 | 12,402 |
| | 98,681 | (69,139) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | — | (21,732) |
| | — | (21,732) |
| Cash flows from investing activities: | | |
| Increase (decrease) in accounts payable related to | | |
| Investing activity | — | (100,000) |
| Disposal (purchase) of investment | — | 100,000 |
| Cash acquired from investment in subsidiary (note 4) | 28,179 | — |
| Proceeds from mortgage receivable | 10,163 | 9,395 |
| Purchase of equipment | (34,391) | (604) |
| Increase in organizational costs | (4,000) | — |
| Purchase of goodwill and intangible assets | (59,021) | — |
| | (59,070) | 8,791 |
| Increase (decrease) in cash | 39,611 | (82,080) |
| Cash and cash equivalents – Beginning of year | 18,567 | 100,647 |
| Cash and cash equivalents – End of year | 58,178 | 18,567 |

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2004 and 2003

1. Future operations:

HTC HYDROGEN TECHNOLOGIES CORP. (formerly Westrange Corp.) (the "Corporation") is incorporated under *The Business Corporation's Act* (Alberta).

On December 23, 2004, the Corporation completed the acquisition of HTC Hydrogen Thermochem Corp. ("Thermochem"). Thermochem is a development stage research company, which is focused on development of cost effective production of hydrogen and CO₂ capture technologies.

These financial statements have been prepared on the going concern basis which assumes that the Corporation will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses and the balance sheet classification used.

Management believes there are sufficient funds to meet existing obligations and will raise additional funds by means of private placements, public offerings and licensing/royalty opportunities with respect to its intellectual property. Subsequent to the year the Company issued 910,250 shares for proceeds of \$3,641,000. Management believes that this is sufficient to mitigate concerns associated with the "going concern" assumption used in preparing these financial statements.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Those principles, which have a significant impact on the consolidated financial statements, are summarized below.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries 311688 Sask. Ltd. and HTC

Hydrogen Thermochem Corp. ("Thermochem"). The Company has accounted for the subsidiaries using the purchase method of accounting.

Property, plant and equipment

The Corporation amortizes its property, plant and equipment over their estimated useful lives utilizing the declining-balance method at the following rates except for leasehold improvements which are amortized on a straight line bases over three years:

| | |
|-----------|-----|
| Equipment | 30% |
| Vehicles | 30% |

Mortgage receivable

The mortgage receivable is valued at the lower of cost and net realizable value.

Intangibles

Identifiable intangible assets acquired through the acquisition of Thermochem that are subject to amortization are amortized using the straight-line method over their estimated useful lives of 4 to 20 years. Intangible assets not subject to amortization are evaluated for impairment and any impairment is charged to earnings as identified.

Goodwill

The excess of the purchase price of Thermochem over the fair market value of identifiable assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment and any impairment is charged to earnings as identified.

Stock-based compensation

The Corporation has a stock based compensation plan as described in note 9. The Corporation uses the fair value based method to account for stock-based payments to non-employees, and employees awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuance of equity instruments granted on or after

2. Significant accounting policies: continued

January 1, 2002. No compensation expense is recognized for all other stock based compensation. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis (temporary differences). The resulting changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future income tax assets are evaluated and if realization is not considered "more likely than not" a valuation allowance is provided.

Use of estimates

Management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

3. Short term investments:

Short-term investments consist of a bank term deposit at an interest rate of 2% per annum maturing on the 9th day of each month.

4. Business acquisition:

On December 23, 2004, the Company completed the acquisition of 100% of the authorized shares of Thermochem for a purchase price of \$9,948,342, funded through the issuance of 2,313,568 common shares of the Corporation plus acquisition costs of \$59,021. The value of each common share issued of \$4.30 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the announcement date of the acquisition agreement, being June 24, 2004. The acquisition of Thermochem has been accounted for under the purchase method with the Corporation identified as the acquirer accordingly, the results of operations of Thermochem have been consolidated from the date of acquisition of December 23, 2004. The costs of acquisition were allocated to the acquired assets as follows:

| | |
|-------------------------------|---------------------|
| Current assets | \$ 799,680 |
| Property, plant and equipment | 5,403 |
| Intangible assets | 6,291,000 |
| Goodwill | 2,924,098 |
| Current liabilities | (12,818) |
| Purchase price | <u>\$10,007,363</u> |

Included in current assets acquired are refundable scientific research and experimental development ("SR&ED") amounts of \$340,759 anticipated from the period ending April 30, 2004 (subsequently received as filed with the corporate return) and the period ending December 23, 2004 being the change in control date. As Thermochem was a Canadian Controlled Private Corporation, until the change in control date, it is eligible for a 100% refund of 35% of eligible SR&ED expenditures. The amount of the SR&ED refund is subject to review and evaluation by the Canada Revenue Agency. Should these amounts not be realized, adjustments will be made in the year of determination.

Goodwill and intangible assets arise from the acquisition of Thermochem. Generally Accepted Accounting Principles require that identifiable intangible assets that meet recognition criteria be identified, valued and disclosed separately from goodwill. Items giving rise to intangibles and related goodwill include but are not limited to; intellectual property (i.e. patent rights, provisional patents, technology rights software rights),

4. Business acquisition: continued

contractual rights with advantageous conditions, human resources (i.e. research teams, project management, patent resources) branding and name recognition related items (literature, data base, videos, domain names, etc) as well as various other items currently under review. Goodwill comprises the difference between the purchase price of Thermochem and identifiable tangible and intangible assets. Management continuously evaluates the allocation between goodwill and intangibles, any adjustments resulting from this process would result in a reclassification between identifiable intangible assets and goodwill.

As at the date of the statements management is not aware of anything that would impair the value of intangible assets or goodwill and accordingly has made no provision to reduce these amounts.

5. Mortgage receivable:

Mortgage receivable bearing interest at eight per cent per annum, repayable in monthly installments of \$1,406, including principal and interest, due October 31, 2010. The mortgage receivable is secured by the land and building mortgaged.

6. Property, plant and equipment:

| 2004 | | | |
|------------------------|-----------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Equipment | \$220,634 | \$199,730 | \$20,904 |
| Leasehold improvements | 16,174 | 1,797 | 14,377 |
| Vehicles | 16,500 | 5,674 | 10,826 |
| | \$253,308 | \$207,201 | \$46,107 |

| 2003 | | | |
|-----------|-----------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Equipment | \$204,014 | \$194,471 | \$9,543 |
| Vehicles | 9,500 | 3,848 | 5,652 |
| | \$213,514 | \$198,319 | \$15,195 |

7. Organizational costs:

Organizational costs arise from Frankfurt Exchange registration. No provision for amortization has been made.

8. Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

Issued:

| | 2004 | | 2003 | |
|--|-----------|--------------|-----------|--------------|
| | Number | Amount \$ | Number | Amount \$ |
| Common shares | | | | |
| Balance, Beginning of year | 6,733,581 | \$1,183,046 | 6,733,581 | \$1,183,046 |
| Issued under private placement | — | — | — | — |
| Issued to acquire Thermochem (i) | 2,313,568 | 9,948,342 | — | — |
| Issued under exercise of stock options | — | — | — | — |
| Balance, end of year | 9,047,149 | \$11,131,388 | 6,733,581 | \$1,183,046 |

(i) Shares were issued for consideration of \$4.30 per share.

Subsequent to the year, the Company issued 910,250 common shares and warrants to acquire an additional 1/2 share per issued shares until April 11, 2007 for \$10 a share, for proceeds of \$3,641,000.

9. Stock options:

The Corporation has a stock option plan for directors, officers, employees and consultants providing for the issuance of options to acquire up to ten percent of the issued and outstanding common shares of the Corporation.

The following table reflects the activity under the stock option plan from December 31, 2002 through December 31, 2004, and the weighted average exercise price:

| | 2004 | | 2003 | |
|---|---------|-----------|---------|-----------|
| | Options | Avg Price | Options | Avg Price |
| Outstanding, and exercisable, beginning of year | 250,000 | \$12.68 | 120,000 | \$21.00 |
| Granted | — | — | 130,000 | 5.00 |
| Outstanding and exercisable, end of year | 250,000 | \$12.68 | 250,000 | \$12.68 |

During 2003, 130,000 stock options were granted to a consultant to the Corporation at an exercise price of \$5.00 per share, expiring on November 1, 2004, these options have been extended to January 31, 2006. A compensation expense of \$4,500 was recognized in the 2003 year with a corresponding increase to contributed surplus. The estimated fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following assumptions: dividend yield – 0%; expected volatility – 30%; risk free interest rate – 4.5%.

The following table summarizes information about stock options outstanding at December 31, 2003:

| Exercise Price | Number of Options | Expiry Date |
|----------------|-------------------|------------------|
| \$ 4.00 | 30,000 | May 14, 2005 |
| \$10.00 | 30,000 | May 14, 2005 |
| \$20.00 | 30,000 | May 14, 2005 |
| \$50.00 | 30,000 | May 14, 2005 |
| \$ 5.00 | 130,000 | January 31, 2006 |

10. Financial instruments:

The Corporation's financial instruments consist of cash, accounts receivable, mortgage receivable, accounts payable and accrued liabilities, and long-term debt. The fair values of these instruments approximate their carrying value due to their short-term nature and the terms associated with the financial instruments.

11. Provision for income taxes:

Income tax provision (recovery) differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 39% (2003 – 41%) for the following reasons:

| | 2004 | 2003 |
|---|----------|------------|
| Computed income tax provision (recovery) | \$19,300 | \$(37,986) |
| Adjustment to net future tax assets for enacted changes in tax laws and rates and other differences | (1,000) | 18,392 |
| Change in valuation allowance | (18,300) | 19,594 |
| | \$ — | \$ — |

The Corporation has approximately \$1,545,000 of non-capital losses available at December 31, 2004, to reduce taxable income of future years. These losses expire in periods from 2008 – 2014.

Tax otherwise payable has been reduced by the application of prior years losses and tax carry forward amounts.

The company has capital loss carry forwards arising from its operations of approximately \$347,000 available to reduce future years taxable capital gains.

The company has undepreciated capital cost claims in excess of net book value of approximately \$181,000 available to reduce future years taxes.

12. Related party transactions:

The Directors and Senior Officers of the Corporation provided consulting services during the year at a cost of \$42,572 (2003 – \$20,108).

In addition, one of the Corporation's directors is a partner in an organization, which provided professional services to the Corporation. During the year these services amounted to \$4,415 (2003 – \$654).

The Corporation also received \$269,160 (2003 – \$79,439 from Thermochem pursuant to a management agreement (see note 15). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These amounts were earned prior to the completion of the acquisition of HTC.

13. Per share amounts:

Basic net earnings (loss) per Common Share has been calculated using the weighted average number of Common Shares outstanding during the year of 6,733,581 (2003 – 6,733,581).

| | 2004 | 2003 |
|--------------------------------------|--------|----------|
| Net earnings (loss) per Common Share | \$0.01 | \$(0.01) |

Diluted net loss per Common Share is not presented, as the effect of Common Share options would be anti-dilutive.

14. Supplemental cash flow information:

| | 2004 \$ | 2003 \$ |
|------------------------------------|------------|------------|
| Cash interest paid during the year | 94 | 974 |
| Cash interest received | 6,661 | 7,429 |

15. Commitments:

The Corporation's subsidiary, Thermochem signed a three year Collaborative Research Agreement (with a three year renewal) dated May 30, 2003 with the University of Regina to complete research on the production of hydrogen. The terms of the agreement require the Corporation to pay to the University up \$160,000 per year and an additional funding of 3% on share capital raised after the signing date to a maximum of \$300,000. To date, Thermochem has paid \$16,380 of the 3% additional funding fee.

The Corporation's subsidiary, Thermochem, leases office space under an operating lease expiring August 31, 2007. Minimum lease payments to expiration are as follows:

| | |
|------|----------|
| 2005 | \$20,852 |
| 2006 | 24,194 |
| 2007 | 16,575 |

SHAREHOLDER INFORMATION

Directors: Lionel Kambeitz, Chairman, CFO and CEO
Kevin Sidloski, Independent Entrepreneur, Independent Director
Wayne Bernakevitch, Barrister and Solicitor, Independent Director
Jeff Allison, President HTC Hydrogen Thermochem Corp. and Director

Officers: Lionel Kambeitz, Chief Executive Officer and Chief Financial Officer.

Shareholder Information:

Stock exchange: TSX Venture Exchange Inc.

Stock symbol: HTC

Common Shares outstanding

as of December 31, 2004 9,047,149

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Telephone: (306) 352-6132
Fax: (306) 545-3262
E-mail: investorrelations@htcenergy.com

Australia/Asia Pacific Address:

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Fax: +61 2 8249 4001

Registrar and Transfer Agent:

Computershare Trust Company of Canada
Corporate Trust Services
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8

Bank: CIBC

Auditors: Virtus Group LLP, Chartered Accountants, Regina, Saskatchewan

Legal Counsel:

McDougall Gauley, Barristers and Solicitors, Regina, Saskatchewan
Borden Ladner Gervais LLP, Barristers and Solicitors, Calgary, Alberta

Dividend Policy:

No dividends have been paid on any common shares of the Corporation since the date of inception, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

Duplicate Communications:

Some shareholders may receive more than one copy of the annual report and proxy-related material. This is generally due to ownership of registered shares in addition to non-registered shares; holding shares in more than one account; or purchasing shares from more than one stock brokerage firm. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should notify the investor relations department at the above address.



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